

Why the theories of supply and supply elasticity are important



EXPLAIN USING RELEVANT TOURISM, LEISURE AND HOSPITALITY EXAMPLES WHY THE THEORIES OF:

-SUPPLY

-THE THEORY OF SUPPLY ELASTICITY

ARE KEY CONCEPTS IN HELPING US UNDERSTAND AND EXPLAIN WITH OUR INDUSTRY ?

This preface provides a comprehensive introduction to the task given for the individual learning outcomes. The Assignment needs to stretch on the Key concepts in understanding the theory of “ Supply” and “ Supply Elasticity ” in relevant to Travel, Tourism and Hospitality Industry (Hotel Industry) .

The given assignment encompasses the following,

PART – 01

The factors which could determine the Demand and Supply of Hotel supplies in United Kingdom.

It will cover the Key concepts Elasticity of supply in relevant to Hotel Supplies supplied in United Kingdom

Hotel Supplies will include the following-

Room Amenities- Bath Accessories, City Information Brochures and Stationeries

Imported Food Materials – New Zealand lamb Chops, Spices , Seasonal P er I
Perishable foods

Imported Spirits – Expensive wines, Rare Collection Cognac, liqueurs and S
Single malt.

Maintenance Supplies

PART – 02

The reasons that firms seek to expand their businesses via internationalisation.

Illustrating with Hotel industry of how firms that you have researched have pursued the globalisation objective.

All these topics are gradually explained as we go and the key terms are highlighted in the task. The underlying concepts and basic principles are used to design the text.

Introduction

The hospitality industry is major service sector in the world economy. The industry encompasses an extensive variety of service industries that include food service, tourism and hotels.

The hospitality industry is a 3.5 trillion Pound service sector within the global economy. London has been named the 2012 for International Games.” There are a multitude of benefits for London hosting the Olympics, biggest of them is Hotel revenue in terms of Revenue, which means Demand for Hotels are already forecasted. The demand for the hotels in any market is determined basically by the amount of traveller’s inflow in that place.

This study may examine the relationship between the Supply and the factors affecting the hospitality sector using some of the theories adapted from Mr. Don Burton notes.

Reference: <http://www.referenceforbusiness.com>

SUPPLY CONNOTE

The term “ Supply” states the total amount of the product that producers are willing and able to provide at a particular price over a given period of time.

Here “ willingness” is the keyword and this is determined using various analytical factors in one’s mind.

The hotel business faces the complexity in the commission of managing the chronological demand for its products put on show for the rest of the world. Also the supply of rooms has outpaced the demand over the last decade. Especially in the United Kingdom, since it is the world’s first industrialised country and stands sixth in the world economy with the “ power of purchasing parity” has to follow some theories in order to sustain healthy in their competitive environment

And as per the fact in 2012 the hotels in UK needs to offer 1 million rooms, the demand in the near future is high. The hotels have two basic means of achieving sustainable competitive advantage within their product market by focussing on low price and to meet the demand the Customers.

Reference: <http://ezinearticles.com/? cat= Business: International-Business>

SUPPOSITION OF SUPPLY

The regulations of supply declares that, “ The Law of Supply claims that when other things are equal, the quantity supplied of a good rises when the price of the good rises”

IMPINGE ON SUPPLY

Supply agenda shows the “ Law of Supply states that as the price of a good rises, the quantity supplied of the good rises, and as the price of a good falls, the quantity supplied of the good falls, ceteris paribus. Simply put, the price of hotel supplies increases the supply to the hotel also increases, when price of Hotel Supplies falls then the supply to the Hotel is also reduced. This is done because the Supplier has invested his opportunity cost in other sources.

“ The Graph illustrates when demand for Hotel room is high the quantity supplied of Hotel Supplies are also high when compared to 2010.”

Source: <http://www.hotelnewsnow.com/Articles.aspx>

FACTORS AFFECTING SUPPLY

There are various factors that may affect the Supply of the hotels either undeviating or deviating. These are some notable direct factors such prices of relevant resources, technology, prices of other goods, number of sellers, expectations of future price, taxes and subsidies, and government restrictions.. This is bulleted below in detail,

Prices of relevant resources

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Technology

Prices of other goods

Number of sellers

Expectations of future price

Taxes and subsidies

Government restrictions

Source – Roger. A Arnold, Economics, 4th Edition, Page No. 72

FACTORS WHICH CAUSES CHANGE IN SUPPLY

PRICES OF RELEVANT RESOURCES

Resources are needed to produce goods. For example, Source is Steak when the price of Steak gone down, then the hotel will purchase and stock more of steak to sell more steaks in hotels which increases the supply of Steak. In that case Supply Curve will move towards rightward.

If there is no resource, that is less steak available thus creating less supply of rooms. Consequently, the preparation of steak will decrease, and the supply curve will shift leftward.

TECHNOLOGY

Most of the western countries have their usage of advanced technology to serve the hotel companies better. The development and in place highly integrated business processes technologies and system are definite. The hotels states the objective in promoting the hotel interface technologies such <https://assignbuster.com/why-the-theories-of-supply-and-supply-elasticity-are-important/>

as property management system, point of sales system, video on demand security and access control which improves Hotel supplies efficiently and effectively. Therefore, the supply curve will shift to the right.

PRICES OF OTHER GOODS

“ When change in the price of one good can lead to a change in the supply of another good” For example the Lobster price increases due to worst climatic conditions making lobster unavailable in market then supply of Fish increases.

Lobster

Fish

Price

Case- 1 Case -2 Quantity

NUMBER OF SELLERS

If more sellers begin producing a particular good, perhaps because of high profits, the supply curve will shift rightward. If some sellers stop producing a particular good, perhaps because of losses, the supply curve will shift leftward.

EXPECTATIONS OF FUTURE PRICE

If the price of a good is expected to be higher in the future, then producers may hold back some of the Hotel essential supplies today. Then they will have more to sell at the higher future price..

TAXES AND SUBSIDIES

Some taxes increase per-unit costs. Suppose tax on Liquor is increased and producer is suppose to pay 2 pounds per Bottle. This tax leads to a leftward shift in the supply curve, indicating that the manufacturer wants to produce and offer to sell few of Liquor at each price. If the tax is eliminated, the supply curve shifts rightward.

Subsidies have the opposite effect. Suppose the government subsidizes the production of Rice by paying wheat farmers 3 pounds for every bushel of wheat they produce. Because of the subsidy, the quantity supplied of rice is greater at each price, and the supply curve of Rice shifts rightward. Removal of the subsidy shifts the supply curve of corn leftward.

Government Restrictions

The government restrictions affects import of hotel supplies for international market, For example stricter Import duties implies adverse affect on hotel essentials thus giving less Output, the supply to the guest will be restricted with available foods. In this case the Supply curve moves towards left.

Reference: Roger A Arnold, Economics, 2008 edition, P. No-71

PART – B

Price elasticity of supply

“ When price changes, there will be not only a change in the quantity demanded, but also a change in the quantity supplied. Frequently we will want to know just how responsive quantity supplied is to a change in price.

The measure we use is the price elasticity of supply.(PeS)”

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In simple terms “ the responsiveness of quantity supplied to a change in price.” is called Price Elasticity of Supply. When it relates to hotel industry the responsiveness of Hotel supplier to a change in price of the product. The supply to hotel supplies in market will depends on change in price of hotel supplies in market or price offered by the Competitors.

supplies

Hotel

Quantity Demanded

The figure shows two supply curves. Curve S 2 is more elastic between any two prices than curve S 1. Thus, when price of Hotel Supplies rises from P 1 to P 2 there is a larger increase in quantity supplied of Hotel Supplies with S 2 (namely, Q 1 to Q 3) than there is with S 1 (namely, Q 1 to Q 2). For any shift in the demand curve there will be a larger change in quantity supplied of Hotel Supplies and a smaller change in price of Hotel Supplies with curve S 2 than with curve S 1. Thus the effect on price and quantity of a shift in the demand curve will depend on the price elasticity of supply.

Reference : Roger. A Arnold, Economics, 2008 Edition, Page No. 57

Source : <http://economics.about.com>

INTERPRETATION OF SUPPLY CURVE

Source : A. M. Shella , Economies of Hotel management , 2002 edition, P- No. 91

KEY CONCEPTS IN DETERMINING THE PES WITH HOTEL SUPPLIES ARE

FACTORS AFFECTING PES

Spare production capacity

When there is plenty of spare capacity then the business will increase its output and therefore the Hotel Supplies supply will Elastic in response to Demand.

Stocks of finished products and components

If the stocks are products are high in the market – supply will be elastic. Conversely when Hotel Supplies stocks are low, supply will be inelastic in response to a change in demand.

The ease and cost of factor substitution

If both capital and labour resources are occupationally mobile then the elasticity of supply for a Hotel Supplies is higher than if capital and labour cannot easily and quickly be switched

4) Time period involved in the production process

Supply is more price elastic the longer the time period that a firm is allowed to adjust its production levels. The momentary supply is fixed and is determined mainly by planting decisions made months before, and also climatic conditions, which affect the overall production yield.

Source: <http://www.amosweb.com>

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FACTORS DETERMINING PES

Two factors that affect the numerical value of the price elasticity of supply are

The Amount that costs rises as output Rises and time period of analysis.

1) The Amount that costs rises as output Rises

When the Additional cost for producing additional output, this encourages more firms to produce for a given price which is raised, then more elastic will be supply. The less the conditions apply, the less Elastic will supply be.

2) Analysis of Time Period

when time period is longer then the time for analysis is more, responsiveness to the price change. Longer times enables the supplier to find alternatives. Time period are of two Long Run

and Short Run. For example, the supply of the Ethnic Restaurants is not very elastic for a period, because Raw material used in production cannot easily switch to other goods. However, given enough time, a year or more, resources can move between productions, resulting in a more elastic supply.

Reference: John Sloman & Alison Wride, Economics, 7th Edition, Page – 58.

Conclusion

Subsequent to the above text consisting of the Supply theories and its implication we could identify the factors that may directly cause the Supply either Surplus or Shortage. Having said that, the necessities of the supply are proposed transparently combining various abilities and the willingness of

the producer and their assumption. Also the producer Supplying behaviour is related to the nation's economical status and external factors (Climate, Transport, Trend) in the United Kingdom on the whole.

TASK – 2 WORD COUNT – 1500

ANALYSE THE REASONS THAT FIRMS SEEK TO EXPAND THEIR BUSINESSES VIA INTERNATIONALISATION.

HOW FIRMS THAT YOU HAVE RESEARCHED HAVE PURSUED THE GLOBALISATION OBJECTIVE?

Introduction

Surfacing the fact that the humankind business endeavour's eyeing on high levels of branding and marking their presence all over the world by adapting the input called the "Internationalisation". Most of the third world nations are now in the realism of making the most out of it, in terms of manpower and technological progression. With the presence of "WTO" the world trade organisation and its phenomenal support it has even made easier to connect nations across the globe with traditional business evolution in the way it is suppose to be. Having said that, the key concept is globalisation and its revolution in the modern business environment.

This perceived text from the research will clarify the concept of internationalisation and the purpose it serves to aid the organisation picked as an example. And will also justify the adaptation on globalisation to pursue the objectives with complete satisfaction.

Internationalisation

The expression is closely attached with the term “ economic globalisation”. This concept can be rephrased as the integration of national economy in to the international economy. Which is done by trade foreign investment, capital flows, spread of technology and the presence of security. The late 20th century offers the rural sociology and revitalization in the crisis of development theorist. The rising concern in the sustainability reveals the limits of up gradation concept. It is vital that every nation and the business existing should imply the “ globalization” in their environment. Of-course the unrevealing support of the nations involved in the globalisations speaks loud for its own steps forward in the long lasting business era.

However “ internationalisation” is commonly recognised and path driven by amalgamation of vital aspects such as

Economic

Technological

Socio cultural

political

Biological factors.

Source: http://www.dadalos.org/globalisation/grundkurs_4.htm

This phrase can also be acknowledged for the fact that it is transnational circulation of ideas, languages or cultural variance. These aspects are

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belonging to the humanity across the world which has gone through the process can be said to globalised.

Significance of “ internationalisation”

Globalisation has a various aspects which affects the world business in several different ways. The emergence of the concept was very vital and as discussed earlier the positive outcomes are way too longer. It is advised to adhere to the principles of global marketing instances. The swiftness of internationalisation will continue to have a growing impact on business organisations and their practices evenly.

Internationalisation hastens the development of the third world countries.

Internationalisation of communication has a phenomenal upshot.

Internationalisation fetches equalization of income distribution.

Internationalisation brings about increased opportunity in the poor countries.

Pessimistic values on “ internationalisation”

Although the rising concerns in the firms affiliated with the paradigm “ internationalisation”, which has left hardly any hurdles or negative effects relating the organisation with that of its man power resource etc.

The developed nations in this modern business environment adapt the policy of outsourcing which happens in manufacturing and white collar jobs.

The exploitations of the globalisation have led the child workers usage in atrocious conditions in order to produce cheap good by ignoring safety concerns.

Earlier in this business world, the workers had stable jobs but now the people live in constant dread of losing their jobs to competitiveness in the environment..

The world of terrorism has involved them in usage of internet for their global terror information postal.

Nevertheless the growing concerns of the firm have witnessed these negative aspects in establishing their brand.

Submission of “ Internationalisation” in relation to a hospitality firm.

Globalisation is measured in various key aspects and the most immense thought has to be prearranged to the people industry which is called the hospitality trade. This concept is symbolized by the rapid movement of people, information and capital across national borders worldwide. Although this paradigm is a contemporary force with careful definition it is accepted.

Global expansion with common product and branding position are in place to acquire the establishment in control.

Sales and marketing of the firm programming in such a way they capture the global economy.

Organisational structures that allow delivery of service with local operational control and the usage of world capital market as a primary source of funding.

“ Quilon” a personification in the task

Succeeding to the illustration and the task given, in which the concept of “ internationalisation” is completely implemented and has witnessed a global accolade’s for its idea. “ Quilon” the hospitality firm being an example for the task given demonstrates certain prolific dimension to the global restaurant chains.

A group of TAJ HOTELS & RESORTS

Concerning “ Quilon”

As a part of an iconic Indian hotel group called the “ the Taj hotels and resorts” Established in 1903, Taj Hotels Resorts and Palaces is one of Asia’s largest and finest group of hotels, comprising 61 hotels in 42 locations across India with an additional 16 international hotels in the UK, Maldives, Mauritius, Malaysia, Australia, USA, Bhutan, Sri Lanka, Africa and the Middle East. From world-renowned landmarks to modern business hotels, idyllic beach resorts to authentic Rajput palaces, each Taj hotel offers an unrivalled fusion of warm Indian hospitality, world-class service and modern luxury.

As they march on in the United Kingdom and established two hotels out of which the crown plaza has the significant Michelin starred restaurant named “ Quilon”.

Three other considerations in global expansion for Quilon Restaurant (A Taj Group)

Source : Managing the Multinational Enterprise, John M Stopford, P. no – 697

Strategic scope for “ Quilon”

Global perception is a matter of survival of the business. That is why a strategy is formed to drive the organisation to attain its penultimate vision of a firm. In the following text let’s notify the significant features or strategy adopted by the hospitality firm which I have chosen in order to showcase the firms benefit in using the paradigm “ internationalisation” as a business tool.

Quilon has adopted Porter’s diamond theory of international competitive advantage identifies a ‘ diamond’ of four interrelated areas within a nation

that assist that country to be more competitive in international markets – the four areas being factor conditions, competing firms within the country, support industries of the country and home demand.

Source: Porter, M E (1990) *The Competitive Advantage of Nations*, Macmillan, P. No – 691

1) FACTOR CONDITIONS

The success of Quilon was depended on the national government's willingness to invest in these areas over long periods of time. " Porter emphasised that competitiveness was not just a matter of comparative advantage". Resources can also be ' home-grown' and specialised". Thus, goes well beyond natural resources but can assist in delivering national competitiveness.

The Quilon has managed to take competitive advantage on UK market with resources being efficiently used for its establishment has No. 1 Ethnic Indian Restaurant.

2) RELATED AND SUPPORTING INDUSTRIES

Internationally competitive suppliers and other related industries represent a critical resource for international success. Clusters of such industries, each offering expertise and world-class service, can be vital.

For example, " Quilon (THE TAJ GROUP)" relies on its world success not just from Hospitality sector but on a range of other products like Food Products, Automobile, Steel and Telecom.

3) FIRM STRATEGY, STRUCTURE AND RIVALRY

Fierce national competition will drive innovation, force down costs and develop new methods of competing that can then be used internationally by the same companies.

Similarly, the Quilon success in UK was its strength of the highly competitive home market. In Asia the parent company of Quilon has “ TATA GOUP” has established major share of Indian Market. TAG group in UK Hospitality sector has first started with TETLY tea 51 BUKINGHAM PALACE HOTEL and BOMBAY BRAISSIERE which helped “ Quilon” to survive rivalry between the competitors.

Source : <http://uk.tata.com/>

4) DEMAND CONDITIONS

Highly sophisticated and demanding Customers in a nation’s home market will drive up innovation and quality. Quilon Authentic food with taste and quality created demand among the customer which resulted in tailoring the Menu and delivering the innovate food within the Market. Which awarded Quilon with One Michelin Star for the Quality Delivered.

In addition, there are two other factors that are important :

1. The role of Government-

Quilon stages of improvement can be influenced by the government regulatios and subsidies.

2. The role of Chance Events -

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The competitive advantage of “ Quilon” can shift in unpredictable ways by various reasons like Recession, Oil price rise and So on.

Source: Managing the Multinational Enterprise by John M Stopford, P. No-707

Quilon (The TAJ Group) Market Portfolios

The Taj group examines its existing Hospitality portfolio and decides whether new products are necessary. Initially, the firm may provide additional products and services for the domestic market before expanding into international markets . Alternatively, the company may decide to internationalize on the basis of a single successful product.

Source : MANAGEMENT CONCEPTS & PRACTICES, Tim Hannagan, 4th Edition, P. No- 43

More frequently firms expand internationally by first developing a portfolio of products with the ultimate objective of entering numerous international markets. This was the approach followed initially by Taj Group when it first decided to internationalize. The company built up a portfolio of Hotels and restaurant before venturing abroad. Less frequently firms expand rapidly into many international markets first with a single product and only later do they develop a full portfolio of products.

51 Buckingham Gate was the first international property from the luxury group Taj Hotels Resorts and Palaces which was acquired in 1982, formerly known as St James’s Court Hotel. After the success of 51 Buckingham Gate, they expanded their hospitality sector by Opening Quilon Restaurant and Bombay Brassiere by 1903.

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Conclusion:

Conversely speaking it is incumbent on all hotel organizations that have aspirations to develop brand names across national boundaries to understand what globalization means. A truly global enterprise will have the ability to react quickly to market opportunities, no matter where they present themselves by applying business concepts that have been proven in the context of a global undertaking.

In a world moving more and more towards globalization, hotel organizations will need to communicate more quickly, operate more productively, offer their employees greater opportunity and deliver their customers enhanced benefits. Those companies that address these issues today will be better prepared for the global market space of tomorrow.